



## Goodwill Impairment

**ASC 350 Intangibles – Goodwill and Other | Accredited Impairment Analyses by IntelK**

For companies that have grown through acquisition, goodwill represents a substantial portion of the balance sheet. Under U.S. GAAP (ASC 350), these assets must be tested for impairment at least annually. IntelK's accredited valuation specialists deliver audit-ready, ASC 350-compliant impairment analyses that withstand the scrutiny of Big Four auditors, audit committees, and regulators.

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# Why Goodwill Impairment Testing Matters

For many companies that have grown through acquisition, goodwill and intangible assets represent a substantial portion of the balance sheet. Under U.S. GAAP (ASC 350), these assets are not amortized but must be tested for impairment at least annually – or more frequently if **"triggering events"** occur. The stakes of this testing are high.

## Impairment Charge Risk

A direct hit to reported earnings, a signal of destroyed value to investors, and a red flag for lenders monitoring debt covenants.

## Delayed Recognition Risk

Failing to recognize impairment when conditions deteriorate can lead to SEC enforcement, shareholder lawsuits, and costly restatements.

## The Solution

An accredited valuation specialist with deep ASC 350 and audit review experience is the single most important safeguard for your financial reporting.

# Testing Goodwill for Impairment

ASC 350 *Intangibles – Goodwill and Other* dictates that goodwill must be tested for impairment at the **Reporting Unit level**. A reporting unit is an operating segment or one level below an operating segment (a component) for which discrete financial information is available and segment management regularly reviews the operating results.

Identifying the correct reporting units is the first critical step. Aggregating units incorrectly can mask impairment in underperforming segments, while disaggregating too far can trigger unnecessary impairments in healthy ones. Goodwill must be tested annually at a consistent date – or more frequently if a "**triggering event**" makes it more likely than not that the fair value of a reporting unit has fallen below its carrying amount.

# Common Triggering Events in 2026

## Macroeconomic Deterioration

Sustained inflation, rising interest rates, or recessionary conditions that impair the outlook for one or more reporting units.

## Industry & Market Changes

Increased competition, regulatory shifts, or technological obsolescence affecting the competitive position of the reporting unit.

## Financial Performance

Negative cash flows, declining revenues, failure to meet budgeted earnings, or significant increases in raw materials, labor, or energy costs.

## Entity-Specific Events

A sustained drop in stock price below book value, loss of key personnel, loss of a major customer, or significant litigation affecting the business.



## Step 0: The Qualitative Assessment

Companies have the option to perform a qualitative assessment ("Step 0") to determine whether it is **more likely than not (greater than 50%)** that the fair value of a reporting unit is less than its carrying amount.

📄 ⚠️ **Key Principle:** If Intelk's analysis of relevant macroeconomic, industry, and company-specific factors concludes that fair value likely exceeds carrying value by a significant margin, no further quantitative testing is required – saving time and resources for healthy reporting units.

However, if the qualitative factors are inconclusive or indicate potential impairment, a full quantitative test is mandatory. The decision to bypass the quantitative test must be thoroughly documented to withstand auditor and SEC scrutiny.

## QUANTITATIVE TEST

# The Quantitative Impairment Test

If the qualitative assessment is bypassed or failed, we proceed to the quantitative test. This involves determining the **Fair Value of the reporting unit** and comparing it to its Carrying Amount (including goodwill).

If **Fair Value > Carrying Amount**, the reporting unit is not impaired and goodwill is considered recoverable. If **Fair Value < Carrying Amount**, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value – limited to the total goodwill allocated to that unit. *Note: The complex "Step 2" calculation was eliminated by ASU 2017-04, increasing the importance of the initial Fair Value determination.*



# Determining Fair Value — Valuation Methodologies

Determining the Fair Value of a reporting unit requires the same rigor as valuing a standalone business. IntelK applies the valuation approaches most appropriate for the reporting unit's industry and available data, consistent with **ASC 820 Fair Value Measurement**.

- **Income Approach (DCF):** Projects future cash flows discounted to present value using a WACC — the primary tool for goodwill impairment testing
- **Market Approach:** Analyzes EV/EBITDA and EV/Revenue multiples of comparable public companies and recent M&A transactions
- **Control Premiums:** Applied when using public company data, supported by empirical transaction studies
- **Market Cap Reconciliation:** Sum of reporting unit fair values reconciled to market capitalization to satisfy SEC requirements

## ASC 820

Fair Value Standard

Governing measurement  
framework

## 2

Approaches Required

Income & Market methods  
applied

## Annual

Testing Frequency

Minimum requirement under  
ASC 350

# Indefinite-Lived Intangible Assets

ASC 350 also governs the impairment testing of **indefinite-lived intangible assets** other than goodwill, such as tradenames, brand names, and FCC licenses. These assets are tested separately from goodwill, typically using the "Relief from Royalty" or "Greenfield" methods.

Unlike goodwill – which is tested at the reporting unit level – indefinite-lived intangibles are tested at the **individual asset level**. An impairment loss is recognized if the fair value of the asset is less than its carrying amount. Consistent assumptions across goodwill and intangible testing are critical to a defensible analysis.

## Relief from Royalty Method

Values the asset based on the royalties that would be saved by owning rather than licensing the intangible – the most common method for tradenames.

## Individual Asset Level Testing

Each indefinite-lived intangible is tested separately, unlike goodwill which is assessed at the broader reporting unit level.

## Assumption Consistency

Revenue growth, royalty rates, and discount rates must be consistent across goodwill and intangible asset testing to avoid auditor challenge.

# The 2026 Regulatory Landscape — SEC & Auditor Focus

1

## "Too Little, Too Late"

Regulators are targeting companies that delay recognizing impairment until a massive write-down is unavoidable — a "Big Bath" accounting red flag in the SEC's 2026 focus areas.

2

## Forecast Optimism

Management projections that historically miss targets but are still used to support passing impairment tests are a primary target of PCAOB inspection findings.

3

## Discount Rate Consistency

Using a WACC that is inconsistent with the risks inherent in the cash flow projections draws heavy auditor scrutiny, particularly in the high-interest-rate environment of 2026.

4

## Triggering Event Documentation

Failure to document why a stock price drop or earnings miss did *not* trigger an interim test is a frequent SEC comment letter target requiring proactive documentation.

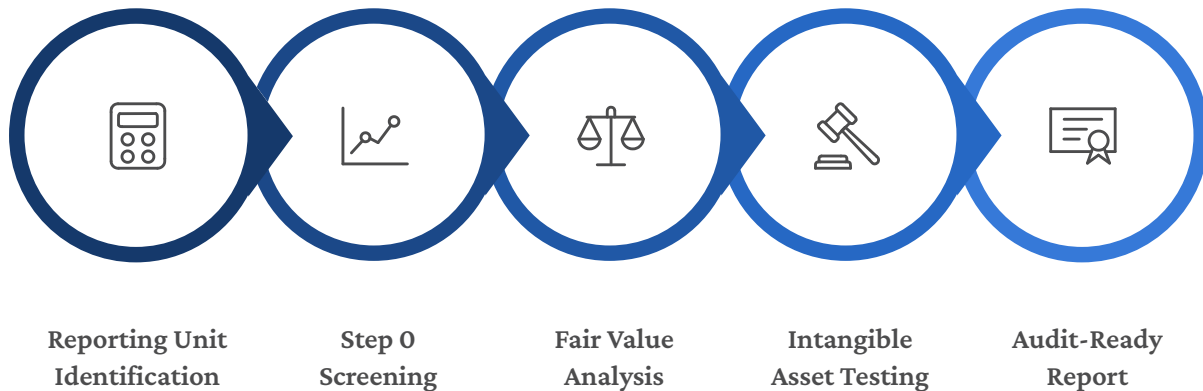
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## Market Cap Reconciliation

A significant unexplained gap between the sum-of-the-parts valuation and market capitalization attracts SEC scrutiny and must be supported by market evidence.

# InteleK's Goodwill Impairment Approach

Our accredited appraisers bring deep ASC 350 and audit review experience to every engagement. Every report is built to withstand scrutiny from Big Four auditors, audit committees, and the SEC.



Our proven process begins with accurate reporting unit identification, screens for qualitative sufficiency, then rigorously determines fair value – integrating goodwill and indefinite-lived intangible testing for full ASC 350 compliance.



# What Sets IntelleK's Process Apart



## Audit-Ready Deliverables

Our reports are written for the eyes of the auditor. We explicitly address the qualitative factors of Step 0, document the selection of valuation inputs, and provide the sensitivity analyses that auditors require to sign off.



## Proactive Step 0 Screening

We don't default to a full quantitative test if it isn't necessary. We help you evaluate whether a qualitative assessment is sufficient, saving you time and fees without sacrificing defensibility.



## Integrated Intangible Asset Testing

We test indefinite-lived intangibles (brands, licenses) alongside goodwill to ensure consistency in assumptions — revenue growth, royalty rates, and discount rates — across your full impairment analysis.



## Scenario Analysis

In uncertain economic times, a single set of projections may not tell the whole story. We use probability-weighted scenario analysis to capture the range of potential outcomes, providing a more robust conclusion of Fair Value.



# Collaboration With Your Audit Team

InteleK doesn't work in isolation – we work **alongside your audit team** to ensure the valuation integrates seamlessly into the impairment testing process and financial reporting strategy.

## → **Big Four & External Auditors**

We engage with your auditors early in the process to agree on methodologies, peer groups, and key assumptions before the final numbers are run – eliminating 11th-hour surprises.

## → **Audit Committees & CFOs**

Our reports are structured to provide the audit committee with clear, transparent conclusions supported by market-based evidence – reducing review friction and improving sign-off timelines.

## → **Legal Counsel & SEC Advisors**

We provide the independent, accredited valuation opinion that legal teams require to respond to SEC comment letters and defend impairment judgments in enforcement proceedings.

# Goodwill Impairment (ASC 350): Key FAQs

Expert insights into ASC 350, triggering events, qualitative assessments, and fair value measurement in 2026.

## What is the difference between ASC 350 and ASC 360?

ASC 350 governs indefinite-lived intangibles including goodwill and uses a fair value test (Fair Value < Carrying Value?). ASC 360 governs long-lived assets with definite lives using a recoverability test based on undiscounted cash flows before moving to fair value measurement.

## Can private companies amortize goodwill instead of testing?

Yes. Under the private company accounting alternative (ASU 2014-02), private companies can elect to amortize goodwill over a period not to exceed 10 years, with impairment testing required only when a triggering event occurs – rather than annually.

## Can we skip the quantitative test if we pass Step 0?

Yes. If the qualitative assessment ("Step 0") concludes it is more likely than not (>50% probability) that fair value exceeds carrying amount, no further quantitative testing is required for that year – significantly reducing compliance costs for healthy reporting units.

## How do rising interest rates impact goodwill impairment?

Rising interest rates increase the WACC used to discount future cash flows. A higher discount rate lowers the calculated present value (Fair Value) of the reporting unit. In 2026's high-rate environment, this can cause fair value to fall below carrying value even without operating deterioration.

## How does a stock price drop affect goodwill impairment testing?

A sustained decline in stock price is a potential "triggering event." If market capitalization falls below book value for a sustained period, it strongly suggests that the fair value of one or more reporting units may be below carrying value, triggering an interim test.

## What happens if the sum of reporting unit fair values exceeds market cap?

This implies a "control premium." While control premiums are legitimate, a large, unexplained gap between the sum-of-the-parts valuation and market capitalization attracts SEC scrutiny and must be reasonable and supported by market evidence.

ABOUT US

# About IntelleK

## Business Valuations For Today.... & Tomorrow

Business Valuations are an "opinion of value" so finding the right professional valuer is key, an opinion with trust. Business Valuations need the combination of science (technology) and art (knowledge & experience).

IntelleK embraces the two worlds to deliver the most robust and efficient service to its clients, adapting to the ever changing environment of businesses and how to value them.

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OUR PURPOSE

## Transferring Business Valuation Knowledge to Business Owners

Most business owners don't know the value of the business, let alone where the value comes from, how to influence / increase it, or where the risk exposure is, which limits its potential.

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